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**INTERNATIONALIZATION OF INDIAN
MULTINATIONAL ENTERPRISES**

**Motivations, strategies and regulation from the
experience of Indian investments: a focus on Europe**

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Internationalization of Indian Multinational Enterprises

Motivations, strategies and regulation from the experience of Indian investments: a focus on Europe¹

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Abstract

This paper makes a critical assessment of Indian companies' internationalization experience. It introduces a new theoretical framework in order to go beyond classical notion based on western companies' global aspirations. Besides the theoretical modifications the paper provides an empirical collection about those successful Indian internationalization projects that sought to enter the European market. The question to be answered here is whether Indian firms are able to compete out dominant western companies in an increasingly multipolar world economy in the future. By applying the modified method on the question of internationalization from developing companies' point of view, the aim of the paper is to detect future world economic trends to which Indian companies will need to accommodate themselves.

JEL: F02, F63, O25, O53, P45, P48

Keywords: FDI, Indian multinationals, multipolar world-system, investment development path, developing countries

Introduction

The following paper is an analytical overview of those economic and institutional forces that are behind the ongoing internationalization of Indian enterprises (MNEs). Most studies on multinational companies are theorized upon the experiences of western multinationals. A great deal of research has also been dedicated to the multipolar structure of the world economy in which developing countries are capturing a growing

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share of global value (cf. Brenner, 2006). A vast empirical evidence demonstrates the increasing geopolitical power of companies from the BRICS countries (Brazil, Russia, India, China and South Africa) but the phenomenon of internationalization either from global or local perspectives have largely been conceptually underexplored. In the following paper I seek to elaborate on the Indian companies' experiences about going international. One question at stake is whether classical theories are applicable to Indian companies' experiences or we need to make conceptual modifications in order to make more thorough explanation for developing companies' global aspiration. In the paper I argue for the latter.

In the first section of the paper I make a short theoretical and historical overview on Indian companies' internationalization. Initially, I apply classical theories on investment development path (Dunning, 1996) to highlight what is missing from our understanding of the Indian experience. After the assessment I use more sophisticated concepts from Ramamurti and Singh (2009) to map out the motivations and push factors behind the internationalization of Indian enterprises with a focus on future developments. My concomitant research question is what are the main institutional legacies that make it doubtful at least in the short run for Indian firms to compete out more advanced enterprises in the changing global environment?

To find the answer, the following section demonstrates some of the institutional obstacles and historical legacies that might disrupt the rapid climbing on the technological ladder and might make India end up in the so called middle-income trap, a real threat in the Indian development context. My research will focus on the shifts in the role of the Indian state and the broader regulatory environment in the promotion of companies' internationalization.

In the last sections of the paper I provide an empirical overview on recent outward FDI trends in terms of the geographical, sectoral and ownership compositions of the successful internationalization projects targeting market entry in the Europe Union. In the concluding remarks, by using this empirical collection I will try to detect the future trajectory of multipolarization from Indian companies' points of view.

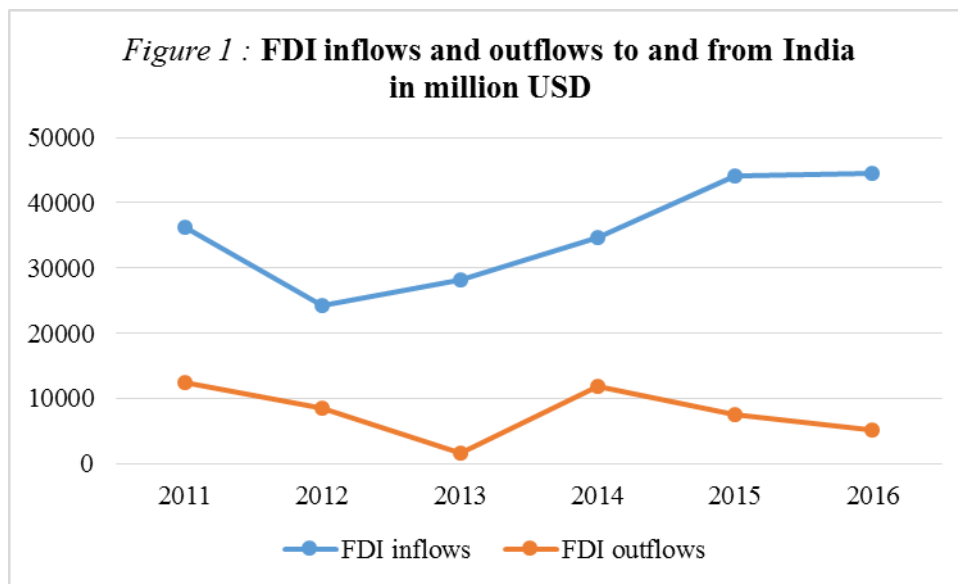
India's world economic position

Indian enterprises have been investing abroad for a long time, but it is only recently that Indian outward foreign direct investment (OFDI) has become sizeable. India is still not a major player in global investments at least in comparison with western countries or China.³

The internationalization of Indian companies traces back prior to the country's independence in 1949. Shortly after India gained independence from the British Empire the first companies from India already set up production facilities in other colonial or already independent states in Africa (e.g. Birla Group's textile sweatshop in Ethiopia, 1959) and Southeast Asia (e.g. Jay Engineering's factory in Sri Lanka, 1962). Between the 1960s and 1980s the average size and the number of these projects were relatively small⁴. Until the 1990s India's share in total outward foreign direct investment of developing countries increased from below 0,5% in the early 1990s to 6,5% by 2015. The major shift occurred in the middle of the 1990s when India opted for a new economic paradigm both in terms of its FDI regulation (mainly through foreign exchange and capital account relaxations) and the way it facilitated Indian companies to participate in the global economy. Since then both the profile and the volume of international investments have changed. A sharp rise of investment activities happened between 2006 and 2011 due to some large acquisitions when the annual average outflow reached 20 billion USD (Rienda et al., 2013). Although in 2011 there was a slowing down process as a result of the global economic and financial crises, since 2014 there has been an uptick again to the level of 10-20 billion USD (Figure 1 and Table 1). In recent years, total outward foreign investment from India rose significantly from ca. 10 billion USD in early 2000s to 255,4 billion USD by 2016. India's total outward FDI increased at a growth rate of nearly 15% from 11 billion USD in 2007 to 31 billion USD by 2015 ((Kallummal et al., 2016:17).

³ India was not among the top 20 countries with outward investment, and still has a negative international investment position of 1440 billion USD as of 2015. (Kallummal et al., 2016:17) It ranked globally 15th whereas in terms of inward FDI India ranks 14th. This clearly shows that the country has more liabilities (inflows) than foreign assets (outflows).

⁴ There were only 133 projects registered in 1976 and the number grew to 228 by 1983. Between 1975 and 1990 Stock of Indian OFDI all together did not exceed 220 million USD (Kanungo 2012).



Source: UNCTAD:2017

This has been a spectacular rise in two respects. One is that India surpassed fellow large economies from the group, especially Brazil and Russia in the middle of the 2000s and significantly narrowed its gap with China. China occupies 20% of BRICS total OFDI with the size of its economy being 2,5 times bigger than that of India. Exposure to capital outflow per GDP is somewhat higher in India than in China. It oscillates around 5,5-6,5% per GDP compared to 4,8-6,1% in China.

The Investment Development Path

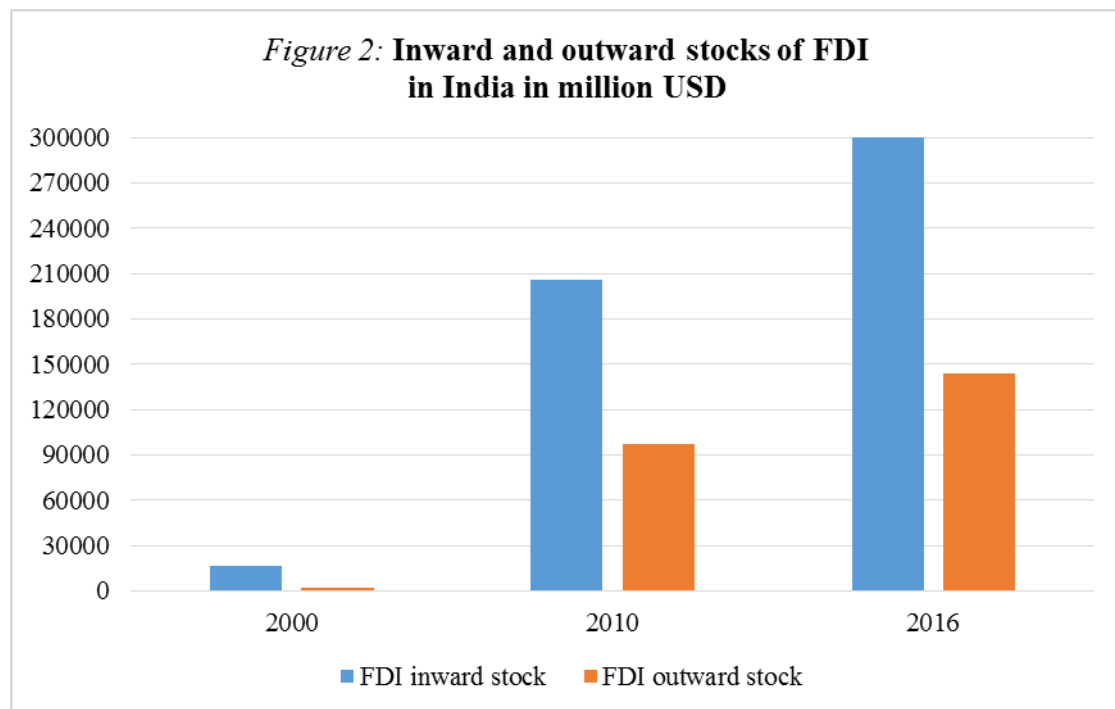
According to the concept of Investment Development Path (IDP) from Dunning and Narula (1998) the form, size and direction of a country's foreign investment reflects the stage of its national development. Dunning and Narula (1998) differentiates between 5 stages of development with respect to outward investments, thus companies' international role.

The basic model suggests that in the first stage of development no direct investment flows in or out of the country. This end point is however theoretical because in the case of India even prior to colonization there were various forms of trade and investment relations with other, mostly European partners. In the early years of independence, the volume of capital flows dropped to a level of almost nonexistence for a few years. In parallel, India's share in international trade dropped from ca. 4.9% at the year of

independence in 1949 to 0,5% by the end of the protectionist period of import substitutional industrialization (ISI) in 1989 (ibid).

In the second stage of the IDP model a developing country becomes a net importer of capital with the appearance of inward FDI. This stage applies to India for much of the post-independence years. India is still a net recipient of capital (Athukorala and Veeramani, 2017; Kahn 2012) and despite the rising volume and share of outward FDI, the process of internationalization lags behind the inflow of foreign capital into the Indian economy.

As we will see in the chapter on FDI regulation, one of the legislative drivers of internationalization is that India relies on foreign investments to a growing extent and OFDI occurs as a consequence of the capital account liberalization. In short, we can say that India has been motivated by positive and negative incentives to liberalize its economy, but the major target of internationalization has been to attract foreign capital. The pushing factor for Indian companies to go abroad has appeared to be a minor consequence partly due to the more general liberalization of the capital account, the main objective of which was the convertibility of selected financial assets. Despite this, since the 2000s there is a spectacular rise of outward foreign direct investments from India and a slow process of narrowing the gap between inward and outward FDI (Figure 2). This trend can be also demonstrated by the stronger correlation between inward and outward flows since the reform period of the middle 1990s (cf. Kallummall et al. 2016).



Source: UNCTAD:2017

By citing Dunning's (1988) model, Andreff (2014) argues that India managed to reach the third stage of IDP by 2009 when its OFDI/GDP ratio exceeded 5%. It corresponds to the level of middle income developing economies with the potential to advance the status to high income. India has been a capital scarce economy which means that its capital account is usually in deficit. Large demands on the foreign exchange reserve is the reason why the country's capital outflows still needs to be monitored (Kahn, 2012:15).

Consequently, foreign currencies are usually in shortage and any OFDI by Indian firms used to be therefore subject to the approval of the Ministry of Trade and Industry. Prior to the economic reforms of the 1990s these licenses were given exceptionally. Since 1991, the capital account has been opened to solve the balance of payment crises with the assistance of the IMF. Capital inflows and outflows are no more subject to state permission. As a result, nowadays the catching up model depends on the firms' ability to proceed in the internationalization process without the direct supervision of the state. As it is elaborated in the next section, the state still plays a crucial role, however, not with direct interventions but as a facilitator of internationalizing Indian companies in selected areas.

The question from the perspective of the IDP model is whether or not and when India will advance to the fourth and fifth stages where it transforms from a capital scare to capital abundant economy. In the fifth stage it will reach a balanced position in terms of capital flows and subsequently becomes a net contributor to international capital accumulation. Despite all the advancements that occurred in the last two decades, such as Indian companies' rising role as global players not only in terms of market share and company size but also a well-articulated specialization in high-tech industries, the way ahead is still ambiguous. The global financial and economic crises had a negative impact on Indian outward FDI. Some of the companies withdrew their activities or sold-out foreign assets to pay the cost of previous borrowings. Nevertheless, since 2014 foreign operations have witnessed a consolidation period (Bano and Tabadda, 2015).

State regulation on capital flows

The first five-year plan was introduced in India shortly after independence as part of the Industrial Development and Control Act of 1951. It aimed at import substitutional industrialization and restricted foreign trade and relied on domestic accumulation in the form of quantitative restrictions (Panagariya, 2008). According to Lipietz (1997) India's ISI model was emulating the Latin American principles articulated by CEPAL. The model aimed at the modernization of domestic industrial sector under the aegis of a populist state and subsistence agriculture based on archaic rural social relations (Lipietz, 1997:7). Capital-intensive industries, such as heavy industry and machinery building, chemical and pharmaceutical industries were the most favoured by the successive plans, from which state authorities expected to bring the benefit of technology and industrial linkages to the rest of the economy.

In 1969 the Indira Gandhi administration enacted the Monopolies and Restricted Trade Practices (MRTP) Act which aimed to put strict control over the economic power of the top private business conglomerates. Under the MRTP Act, all firms above a certain asset base were prohibited from entering into most of the industries, and even extending their existing capacities required permission which the government evaluated on a case-by-case basis. Export-oriented firms in the manufacturing sector were the most affected and the worst hit by these constraining policies. As a response, these firms

transferred activities into neighbouring developing countries, mostly in Southeast Asia (Singapore, Malaysia, and Thailand) which were more open to foreign trade and investment. As regards the mode of financing these projects, the government severely restricted cash remittances for equity participation but encouraged the export of capital equipment from India.

Economic growth in the 1970s and 1980s were fostered by foreign loans instead of domestic capital accumulation which put a mounting pressure on the balance of payment and exposed Indian governments to rely on foreign capital inflow to a growing extent. This had serious consequences on the ISI model. Contrary to the original paradigm of protectionism and restrictions, governments encouraged export oriented firms to invest abroad and generate revenue in foreign currency. The state thus became an early facilitator in export promotion and in fostering internationalization for a selected group of firms. In the 1980s, government emboldened outward investment through financial assistance, concessional loans from two state-owned banks: the Industrial Development Bank of India and the Exim Bank. Furthermore, the state offered generous tax credits. OFDI criteria was gradually lifted as a part of the capital account liberalization which started already in the mid-1980s due to the growing pressure on the balance of payment.

The basic structure, however, remained largely intact during the period. The balance of payment crises were not solved during the 1980s, in fact India was deeply affected by the series of bankruptcies that haunted Latin American and the Soviet-allied Eastern European states. After the collapse of the Comecon market in 1991 a sudden shortage of hard currency paved the way for a quasi-default in India. Only the IMF bailout could save the country's credibility. The liberalization and the structural adjustment program initiated by the IMF in 1992 marked a clear departure from the statist ISI model. As part of the new policy framework, relaxation of restrictions on overseas investments began in 1992.

Since 1991, alongside with the economic liberalisation, the policy geared toward promoting inward FDI and governing outward FDI has become more business-friendly. Liberalisation proceeded with the equal treatment of foreign firms, opening up of various sectors hitherto closed to foreign investors, making fierce competition in India's

home market. A number of Indian companies faced global competition in their home market, which made it imperative for them to become competitive. Indian companies were helped by state initiatives, particularly from the Reserve Bank of India (RBI) to adapt to foreign investors' presence through linkages, alliances and joint ventures (JVs). Administration for the approvals for OFDI was transferred from the Ministry of Trade and Industry to the RBI with a view to create a single window clearance in 1995⁵.

In 1995 India became member of the World Trade Organization (WTO). The membership meant that most trade restrictions had to be lifted and since then India has been an active negotiator of the international trade system⁶. During the negotiations India signed WTO's TRIPS⁷ which resulted in the Patent Amendment Act in 2005. That brought an end to India's loose patent system which used to be one of the pillars of the Indian industrial policy framework (Taylor, 2011:127).

In the first half of the 2000s foreign exchange reserves grew substantially partly as a result of the capital account liberalization, the subsequent inflow of foreign capital and the privatization scheme launched by the second government of Atal Bihari Vajpayee (1998-2004). The overall foreign exchange reserve position provided comfort for the RBI to gradually relax capital controls and simplify the procedures for OFDI from India⁸.

In 2011, the RBI allowed Indian companies to disinvest their stake abroad without prior approval where the amount repatriated on disinvestment is less than the amount of the original investment. The liberalization process has not been completed though.

⁵ The first reform act that was introduced by the RBI was the automatic route for overseas investment up to 2 million USD with a cash component not exceeding 0,5 million USD in a time limit of 3 years. The limitation was lifted to 15 million USD in 1995 and to 100 million USD in 2002⁵ under the Foreign Exchange Management Act (FEMA). In 2004 the limit was removed and Indian MNEs were permitted to invest abroad up to 100% of the net worth of the company on an automatic basis. The requirement of minority capital participation was replaced by a requirement to comply with the host country regulation. Indian companies were permitted the capitalization of service fees and royalties to meet equity participation, to obtain foreign currency loans abroad, and to grant loans to their foreign joint ventures. In some cases, direct cash remittances to joint ventures were also allowed.

⁶ See India's pro-active role in the latest Doha Development Round in 2015 to continue discussions on agricultural tariffs.

⁷ It included stronger intellectual property laws and strong dispute settlement mechanisms.

⁸ The bank raised the investment limit first from 100% to 300% and in 2011 to 400% of the net worth of the company as part of the automatic route. In 2005, access of Indian MNEs to international capital markets was liberalised, allowing them to float international special purpose vehicles (SPVs) to finance overseas acquisitions. Since then firms are allowed to use domestic bank borrowing and to take loans from foreign banks to finance OFDI. In 2006, the prudential limit on bank financing was raised from 10% to 20% of the net value of overseas investment.

OFDI in finance and insurance and real estate must still be considered by an inter-ministerial committee.

Idiosyncratic specialization of Indian MNEs

According to Athukorala and Veeramani (2017) Indian companies' specialization in the world economy reflects the idiosyncratic form that derives from the fragmented structure of the Indian economy (Athukorala and Veeramani, 2017:17). After independence Indian companies specialized in capital and skill intensive industries whereas the country's competitive advantage lies in the abundance of cheap and relatively unqualified labour. Athukorala and Veeramani (2017) argues that the discrepancy was made by the post-independence state through its current industrial policy framework.

Before analysing the pull and push factors behind internationalization, the question of idiosyncratic specialization has to be raised from a different angle. India's FDI displays several characteristics that largely mirror the country's own national developmental path. The usual research question regarding outward FDI is whether it is the product and initiator of economic development in the form of gaining competitive advantage on a global scale. Or whether such a process of OFDI is the product of unfavourable business environment in the home economy. Thus, it is a form of capital flight (domestic investors fleeing the country because of the dire investment climate) which disrupts economic advancement in the long-run. Such an idiosyncratic specialization is treated as a general bias in economic development. In the early years of industrialization Indian companies specialized in capital and skill intensive manufacturing, e.g. in heavy industries, such as military and construction against (unskilled) labour-intensive production.

Despite the restrictive conduct of the state under the economic paradigm of import substitutional industrialization (ISI) India remained an economy based on private property rule and free market relations, however, controlled by the state⁹. According to

⁹ This has also been reflected by the Bombay Plan (1944 January) which was addressed by leading industrialist in the 1940s anticipating free India and proposing a vision for national economic reconstruction in the post-independence period. Despite that Jawaharlal Nehru's first government

Athukorala (2009) the interventionist (licenses/permissions) approach which was called the 'License Raj' or 'Permission Raj'¹⁰ distorted the economic base India had inherited from her colonial past¹¹. Industrial licenses created a fundamental disconnection between India's industrial structure and its resource endowments. This anomaly was created by government incentives and as for early internationalization, domestic environment was blamed to be a push factor for companies to escape restrictive industrial and trade regimes.

As a result of the idiosyncratic specialization, tension arose between the state- and family-owned industrial conglomerates. Some companies attempted to reduce dependence on the Indian market and on the domestic business cycles especially. Economic reforms since 1991 has not been enough to completely eliminate idiosyncratic structures. Presumably, domestic push factors arising from unfavourable investment climate in the home market continue to influence Indian firms' decision to go abroad. Such phenomenon might still be regarded as a form of continuous capital flight, resulting in a costly trade-off between overseas investment and domestic investment¹² (Athukorala and Veeramani, 2017:19).

The ownership structure of Indian companies

The majority of Indian companies are private entities. State owned enterprises play a much smaller role in the internationalization process in India than in China or Russia¹³, except for oil and gas companies¹⁴. Prior to 1980s Indian companies were allowed to

embraced some ideas of the Bombay Plan, as industrialists were part of the Independent Movement. In the early years of the Cold War private enterprises was dropped from the official guidelines

¹⁰The only way for foreign companies to get access to India's market at this time was to establish partnership or joint ventures with Indian firms to license, manufacture and distribute their products. This obligatory licensing system placed the state in the position of intervener in all economic sectors.

¹¹ Athukorala (2009) sustains that despite the early years of British rule when thriving Indian manufacturing shrank, in the later years of the Empire, large business conglomerates grew out in the British market. Still today, many of these originally family-owned enterprises, such as the Tatas', Birlas', Mahindras' origins trace back to this colonial period. A rising group of British-Indian industrialists drafted the Bombay Plan which was later dropped and circumvented by the Indian state in its effort to promote ISI.

¹² Possible factors today: stringent labor laws, high corporate taxes, weak bankruptcy framework, underdeveloped infrastructure, power-shortages, over-bureaucratized procedures which is called in the popular language: 'Inspector Raj'.

¹³ For this reason geopolitical considerations in foreign investments play a much smaller role in India than in China or Russia.

¹⁴ For example: Oil & Natural Gas Corp (68% state owned), Bharat Petroleum, Hindustan Petroleum, Indian Oil Corporation.

participate in joint ventures with minority stakes. JVs dominated the form of ownership of foreign affiliates. Although some companies have recently become publicly traded, most of the business conglomerates are still under the direct or indirect control of the founding family¹⁵.

One constrain for Indian companies to become publicly traded is that the ownership structure of the largest business conglomerates are highly concentrated and kinship-based¹⁶. This had a significant role during ISI when industrial relations were network-based (Taylor 2014). These semi-formal networks involved state-enterprise employees, leading industrialist families and even government officials. The significance of those networks shall not be underestimated. The most important function was that during times of conflict between the state and private enterprises, these networks played a crucial role in consolidating tensions. Nevertheless, industrialists could influence industrial policies through their networks and these relationships were helpful in financial leverages (Taylor 2014:126). Networks have still been active, in fact, informal contacts were converted into formal institutional bodies after 1992 (ibid).

The family-based ownership structure impact Indian companies' operation in several ways, e.g. the mode of financing overseas projects. Companies tend to prefer bank loans and guarantee issues to international money markets or they use retained earnings instead of share-swapping in order to protect their family ownership structure (Rienda et al., 2013). These limitations had serious consequences during the global financial crises in 2009 as some of the MNEs had purchased assets in developed markets with high premium¹⁷. When the financial crises hit, loss on the value of obtained assets made serious challenges in debt servicing. Indian companies took credit in foreign currency,

¹⁵ Families: Tata family, Kalyani family (Bharat Forge), Mahindra brothers, Kirloskar brothers, Dilip Shanghvi (Sun Pharmaceutical), Nicholas Piramal (Piramal Healthcare Ltd).. etc.

¹⁶ Good example is the Tata Group, India's largest and most renowned company in terms of its global activity. The Group Chairman Ratan Tata frequently interferes with the board of directors. The situation escalated in 2016 when the deputy Chairman of the group Cyrus Mistry was ousted and Mr Tata had to step in. <http://in.reuters.com/article/tata-sons-managementchanges-idINKCN1201C9>

¹⁷ For instance Tata Steel outbid Brazil's Companhia Siderúrgica Nacional for Corus Steel which pushed up the final price significantly to 13 billion USD (Fleury and Fleury, 2011).

while the rupee significantly lost its value between 2011 and 2014 making debt levels ballooning¹⁸.

Competitive advantages of Indian companies

In his seminal work on the internationalization attempts of Indian private companies, Sanjaya Lall (1996) summarized the lessons in the following. The competitive advantage of Indian firms on the world scale originated more in country than in firm specific assets¹⁹. During the ISI period, companies were inspired to learn technological capabilities to build upon technologies imported from abroad rather than produce completely novel technologies. These managing skills helped them to develop capabilities to absorb and adapt technologies imported from the west. Indian companies specialized in combining state-of-the art technologies with skilled and cheap labour which greatly helped them to adapt production to special factor prices and endowments in other developing countries. The main advantages cover production process skills, technological expertise linkages with specific activities in the home country (Hay and Milelli, 2011:153).

Country specific advantages that Indian firms possess are the following:

- Technological comparative advantage: ability to adopt technology to fit relative factor prices in developing countries with small market size (purchasing power)
- Ability to adopt original design to local conditions (climate, geography, culture, local market demands)
- Managerial cost advantage: ability to complement entrepreneurial adaptation to conditions in developing countries
- Labour cost advantage: ability to use domestic skilled labour to operate projects abroad

¹⁸ Especially companies from sectors of automotive, metals and chemicals were the most sensitive to international financial downturns and the downfall of the rupee (Kahn, 2012:17).

¹⁹ The firm-specific advantages are intrinsic characteristic capabilities of companies and usually built up on product or process technology, marketing, distribution skills or managerial know-how. Country-specific advantages are factors unique to home country business environment. These can be based on natural resource endowment, on labor force, or on non-tangible factors such as qualification, management and skills, entrepreneurial talent, intellectual property protection or any other factors characteristic to the given country. Most MNEs rely on a mix of country and firm-specific advantages (Athukorala, 2009).

Although expansion of Indian businesses in the global arena has been noticeable, yet they are at the formative stage of their global operations (Rienda et al., 2013). Lall (1996) identified 5 reasons for the poor performance of Indian firms compared not only to western but other developing MNEs. These are: lack of experience, smallness in size, lack of proper assessment of foreign conditions which were peculiar during the global financial crises in 2009. In addition, wrong choice of local partners and inadequate policing of the government add up to the slow and sometimes mismanaged process of becoming global enterprise (see the list of the largest Indian MNEs with foreign assets in Table 1).

Table 1: The largest Indian MNEs (foreign assets in million USD)

Company	Industry	Foreign Assets (2014)
Oil and Natural Gas Corp.	Oil and gas	4700
Tata Group	Conglomerate	4200
Videocon Industries	Conglomerate	1600
Ranbaxy Laboratories	Pharmaceuticals	1000
Dr. Reddy's Laboratories	Pharmaceuticals	870
HCL Technologies	IT Services	780
Hindalco Industries	Steel Industry, Aluminum	580
Sun Pharmaceuticals	Pharmaceuticals	280
Reliance Industries	Oil and gas	250
Suzlon Energy	Alternative energy	140
Larsen and Toubro	Engineering, construction	130
WIPRO Technologies	IT Services	130
Bharat Forge	Automotive	110
Patni Computer Systems	IT Services	81
Hexaware Technologies	IT Services	70
Biocon Limited	Pharmaceuticals	50
i-Gate Global Solutions	IT Services	49
Max India Limited	Conglomerate	37
Mahindra & Mahindra	Automotive	35
NIIT Limited	IT Services	31
Piramal Healthcare Limited	Pharmaceuticals	26
Birlasoft (India) Limited	IT Services	21
Raymond Limited	Fabric manufacturing	18
Infosys Technologies Limited	IT Services	9

Source: Andreff, 2014

Lall (1986) found that as a consequence of state intervention and protection, *“technology embodied in indigenous machinery was not an important source of competitive advantage of Indian firms in overseas locations. The technological expertise by producing for the domestic market under heavy protection was the prime source of*

comparative advantage. It was not the technology per se but the pool of less expensive but competent Indian managers and technicians” (Lall cited by Athukorala, 2009:144). This is especially preferred by other developing countries because of the high competence and less expansive nature of Indian investments. As a matter of fact, 80% of Indian investment in the first decades after independence went to developing countries²⁰.

Motivations for internationalization

In the following I give a brief overview of the most important motivations for Indian companies to go international with respect to the origin and structure of their competitive advantages in different historical conjunctures.

The main motives for internationalization are driven by a wide range of factors, such as market access for export, horizontal or vertical integration into global supply chains, delivering services to key clients, access to specific assets (technology, know-how, skilled labour force), capturing international brand names and last but not least global leadership aspirations as we will see in the case of the Tata Group for instance. With access to new markets, technologies, research facilities it is possible to diversify risks with geographical expansion. The economic crises in 2008 and 2009 despite the negative financial consequences for indebted Indian firm, also provided great opportunity to purchase western companies whose value dropped during the crises. The main push factor for Indian companies to go abroad has been and still is to seek new market opportunities (Lall, 1996). This is in line with India’s rising involvement in global trade and investment since the 1990s. However, the character of investments have greatly changed in the last decades.

In Dunning typology (1993) four types of motivation are identified: market-seeking, asset-seeking, resource and efficiency-seeking strategies, respectively. In the case of India market-access and strategic asset-seeking considerations predominate corporate

²⁰ Before 1990s more than 80% of foreign direct investment from India targeted developing countries. Beyond the above mentioned economic reasons, geographical familiarity in South East Asia, colonial legacy in Africa and cultural linkages through the Indian diaspora also played a significant part. Moreover, similarities in the developmental path, such as institutions, level of industrialization, the structure of the economy (labor-intensive, small-scale technological production) were also determining factors in the so-called South-South trade and investment linkages.

business decision regarding overseas investments (Das and Banik, 2015). However, there has been a major shift of motivation from the original market seeking aspiration to strategic asset seeking since the 2000s. As for resource and efficiency seeking aspirations these can also be found as secondary motives, concentrating in the extractive industries and some segments of manufacturing. But as a result of the low level of production costs and the abundance of cheap labour, efficiency seeking is not among the main motives for Indian firms to invest in abroad.

Indian firms investing abroad before 1990s were mostly conglomerates in industries that required simple technology, low production differentiations and labour-intensive techniques to expand in developing markets. Market seeking strategies were important to generate revenue outside India for which they deployed the above mentioned adopted technologies in other developing countries. The flagship industries of the time were manufacturing, especially textile and automotive. Besides, metal production, oil refineries and paper industries also played an important role (Kanungo, 2012). As the trade-supporting character of Indian OFDI began to grow from the 1990s onwards, more high-tech and trade-supporting firms, most notably generic pharmaceutical and IT service companies appeared on the market and increased their global activities with aspirations of preserving strategic assets such as brands, patents, technologies, skilled labour force or necessary infrastructure (e.g. in the form of laboratories). Since the 2000s, technological asset seeking strategies has been on the rise and companies from manufacturing industries (automotive and electronics) followed the line of service providers.

Three of the biggest purchases of Indian firms took place in the 2000s, each of which sought to gain strategic assets. The first one was Tata Tea when it purchased Tetley Tea in 2000 for 400 million USD. As a result Tata Tea became the third biggest branded tea provider in 40 countries of the world with world-wide marketing network and advanced packaging technology. Tata Tea could connect his network (and brand usage) with its vast tea plantation system in India and Sri Lanka. In 2007 Mittal Steel, headed by Lakshmi Mittal, purchased Arcelor which has been the single largest acquisition that Indian company has ever made. The net value of the transaction was 33 billion USD. ArcelorMittal is the world's biggest steel maker producing ca. 100 million tons of crude

steel per year (6% of the global steel production) by using state-of-the-art technology and cheap accessible labour as well as raw materials around the world. A similar large transaction took place in the steel industry when Tata Steel purchased the UK-based Anglo-Dutch Corus for 13 billion USD. The latest strategic asset-seeking transaction was Tata Motor's acquisition of Jaguar Land-Rover in 2008 for 2,3 billion USD in an all-cash transaction.

Strategic asset-seeking transactions usually target R&D activities in developed countries to access technologies and knowledge in innovation-driven regions. Besides these motivations, Indian firms especially in the automotive and electronic industries undertook industrial restructuring to build regional production networks to be closer to key clients in Western Europe and the US which is a form of efficiency seeking (Roman et al., 2014). For instance, in the case of Tata Motors, one of the main reasons behind Jaguar-Land-Rovers' takeover was acquiring its brand. It also established a European-based production network with capacity extension to Central and Eastern Europe (Jaguar is building a new plant in Slovakia).

Ramamurti and Singh (2009) applied a different typology for internationalization strategies of Indian firms. They introduced four generic categories each of which reflects a particular type of strategy in a particular era, making differences in the companies' profiles e.g. their sectoral composition. None of these categories apply to western companies with monopolistic position in the global market. According to Ramamurti and Singh (2009) Indian firms need to develop further from these categories to achieve firm specific advantages in order to be truly global players.

The first category is called the 'local optimizer'. Firms in this category optimize production processes for the local Indian market where they are based. These companies have their competitive advantage in those special technological adaptations which fit well to the demands of developing markets, for example in terms of factor prices and the availability of labour force (Pradhan, 2011). Internationalization usually targets other developing countries. The dominant industry in the first category is manufacturing, especially auto-part products. The second category is called the 'low-cost partner' whose core competences are corporate managerial and technical skills. Their unique way of process excellence and project management - which they developed

during the ISI era - enabled them to become global suppliers of large western multinationals in cutting-edge industries. Technological standards and tech-intensive specialization is probably the most important element of successful internationalization in this category. Therefore these companies rely heavily on both the qualified workforce in India and the Indian diaspora. It consists of firms mostly in the pharmaceutical industry and service sectors, especially software and IT providers who managed to specialize in Business Process Outsourcing (BPO) from western companies in the later part of the 1990s. Both pharmaceuticals and IT companies are able to take advantages of the large pool of highly qualified Indian workforce and high profile institutions that supply with the workforce. Both IT and pharma companies are in the forefront of Indian industrial relations since the reform era of the 1990s.

The third category is called 'global consolidator'. These companies developed competences in process engineering in mature industries such as steel, textile or manufacturing. These Indian firms were usually pioneering in their internationalization efforts, some of them started overseas investments already in the 1960s to escape restrictive home environment. In the first attempt during the period of ISI firms pursued horizontal acquisitions in other developing economies. At a later stage in development these companies managed to make vertical integration into larger suppliers' chains in advanced markets. These companies specialized in what proved to be unviable in the western markets due to throat-cutting competition, overproduction and the relatively high level of production costs compared to the squeezed profit potential in their home markets. Global consolidators take over these positions by their ability for cost consolidation (Nayak, 2011). Finally the fourth category is called 'global first mover'. These companies are pioneering in combining state of the art technologies with low cost manufacturing. They are already on the technological frontiers in some of the most progressive industries where competition with western MNCs are fierce. These are global innovators, one example is the Indian wind power alternative energy industry.

Text box

Strategies for internationalization (based on Kanungo, 2012:23)

Access to markets

Indian companies can get access to special market niches through acquisitions that are otherwise protected because of anti-dumping measures. These are usually in developed markets, e.g. in the European Single Market or the United States. One example is the pharmaceutical industry where companies equipped with the USFDA approved facilities are looking for acquisitions for registration purposes. The manufacturing activities usually remain in India because of the low cost of production and lax patent regulation but after the registration the market distribution becomes accessible through acquiring stakes in western companies. Dr Reddy's Laboratories pioneered in this by acquiring Betapharm generics drug company in Germany for 572 million USD in 2006 which was the largest Indian pharmaceutical transaction so far. Similarly Bharat Forge Ltd one of the world's largest forging supplier acquired 7 companies in Europe and the US between 2000 and 2016²¹.

Horizontal integration

Horizontal integration was particularly noticeable in the steel and chemical sectors. The striking examples are Tata Steel's acquisitions of Corus in the UK, NatSteel in Singapore and Millennium Steel in Thailand. In addition, the acquisition of Berger International in Singapore by Asian Paints and Dunlop Tyres in South Africa by Apollo Tyres are also examples of cross-border horizontal expansions targeting other developing countries.

Delivery of services to key clients

Delivery service economy applies to IT and other software service industries. Most of these companies grew out from Business Process Outsourcing (BPO) activities in their home markets during the 1990s. Their advancement in computer software technologies

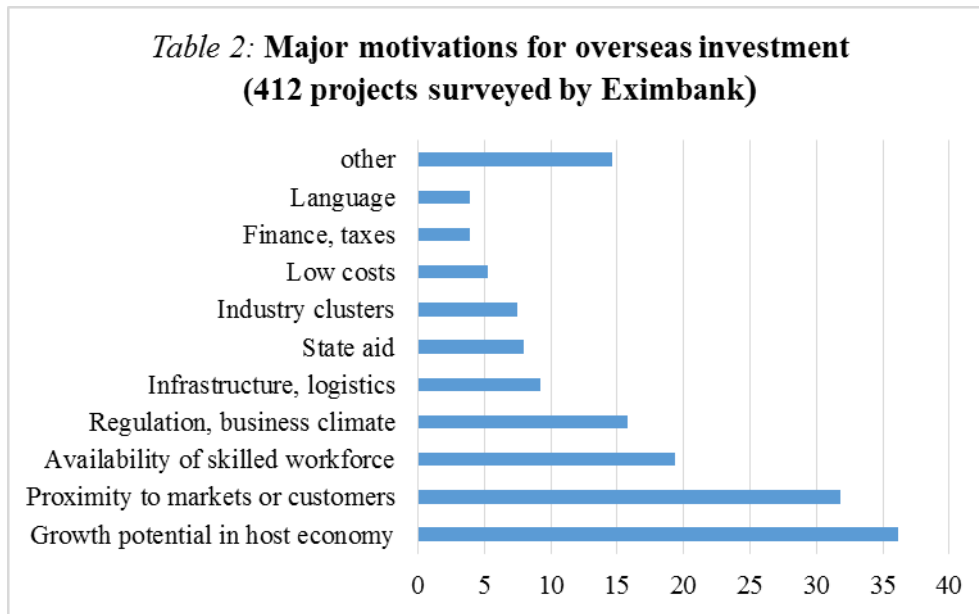
²¹ Of these four have been in Europe and three in the US. These include Kristall Forge of the UK acquired in 2000 for 4,5 million USD, and two German suppliers CDP and CDP Aluminiumtechnik in 2003-04 bought for 50 million and 8 million USD respectively. In 2005, Bharat Forge acquired Michigan-based Federal Forge for 10 million USD and Imatra Kilsta AB and its subsidiary Scottish Stampings for 55 million USD. In 2016 the company acquired Walker Forge Tennessee for 14 million USD http://www.business-standard.com/article/companies/bharat-forge-acquires-us-based-walker-forge-tennessee-for-14-mn-116111800708_1.html

provided the push factor for internationalization and acquiring middle-sized companies in developed economies to get closer to their main clients. Good example is Wipro Technology's entry in Hungary in 2010 to serve one of its largest clients' Deutsche Telekom's local programming effort.

Access to state-of-the-art technologies

Indian companies interested in diversifying their product portfolio require advanced technology which is not available in their home. This can be obtained by acquiring firms abroad which would provide them market expansion as well as the technology to produce value added products at lower prices. For instance, Tata Motors acquired Daewoo Commercial Vehicle Company in the Republic of Korea in 2003 for 118 million USD for accessing the South East Asian market and the Korean firm's production facilities. Infosys acquired Expert Information Services Ltd in Australia in 2003 for 22,9 million USD to extend its client base. Ranbaxy Technologies acquired Aventis in France in 2003 for 70 million USD to strengthen its market position in Europe and to target strategic assets such as new technology and brand names and to gain access to distributional networks. Access to technology is particularly important in telecommunication and semi-conductor sectors. The acquisitions of Hansen Transmissions in Belgium by Suzlon Energy, Flag Telecom in the USA by Reliance, New Logic by Wipro in Austria and Adventa in the Netherlands by United Phosphorus represent the biggest of such transactions. Access to technology was a prime motivation in the steel, pharmaceutical and chemical industries.

According to a survey conducted by the Federation of Indian Chambers of Commerce and Industry (FICCI) in 2014 market seeking strategies are still significant among Indian firms, 51% of the respondents indicated market-access as a main driver for overseas investment, whereas only 15% said asset seeking and 13% resource seeking were behind the decision. Interestingly in the post-crises survey 22% of the respondents mentioned efficiency seeking as a main objective of overseas investment which reflects upon the rising competition from other developing countries with low production costs on the global stage. State-owned Exim bank made a similar but more detailed survey among 412 companies to detect their main motives for overseas investment (see the results in Table 2).



Source: Eximbank (2014)

Consequently, industrial composition reflect a shift from originally market seeking to asset seeking strategies (Kumar 2008). Manufacturing firms specialized in intermediate technologies in relatively low-tech industries. Their main competitive advantage was the ability of absorbing, assimilating and adapting foreign technologies to their local labour-abundant production systems. These combinations were however not always easy and the unique character of the ownership structure and corporate management explains how Indian firms have been able to capitalize on the synergies of these adaptations. Thus, the ability to adapt technologies to special factor prices and endowments in developing countries originate in the unique form of the ownership structure and corporate governance of the Indian enterprises.

Investment trends

Entry mode

Two types of entry mode, brown- and greenfield investments can be distinguished when companies seek international aspirations. They can either acquire minority or majority stakes in foreign companies by mergers (share-swapping) or acquisitions (M&A) or they can gain permission to bring facilities to overseas location and establish an affiliate through greenfield investment projects. Before the 1990s the most typical

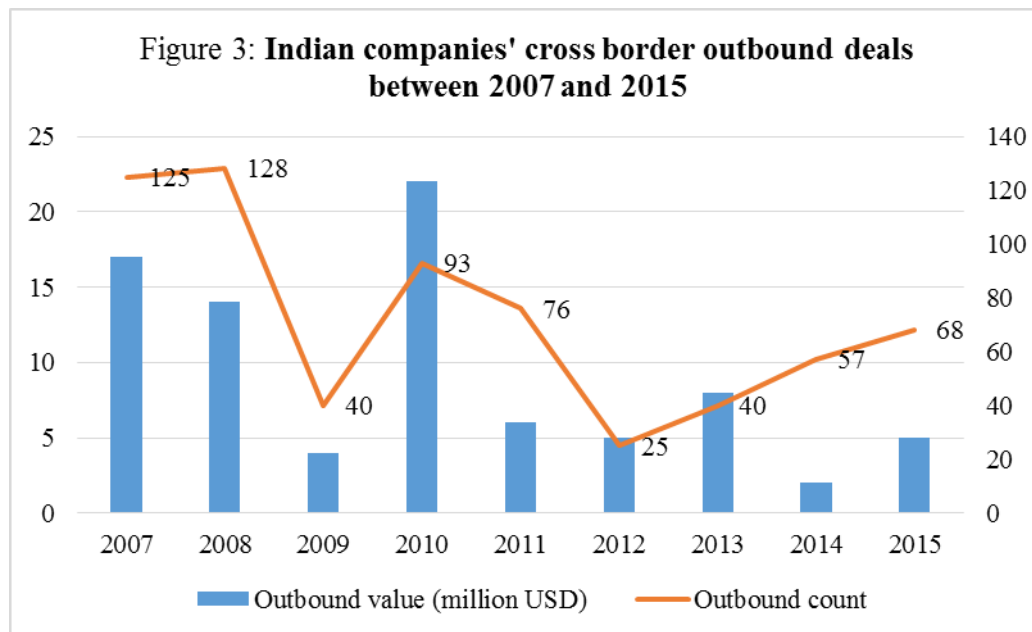
form of Indian foreign investment was greenfield with minority stake in joint ventures. Despite the fact that a major shift has started since the 2000s ca. 55% of OFDI stock is still greenfield. The changing motivation for internationalization reflects on the changing entry strategies. For global aspirations, greenfield investments are not the most appropriate.

Mergers and acquisitions have grown robust since the capital account has been open but contrary to the numerous small-scale greenfield projects, M&A consisted of a few very large transactions. Even before 2005, the average size of transactions was around 500 million USD which grew above 10 billion after 2005 making the rapid rise in Indian OFDI spectacular. Heavy concentration of acquisitions was made by a few large firms like Infosys, Ranbaxy, Reliance and Wipro. Between 2000 and 2006, 15 firms were responsible for 98% of the net value of 306 transactions and 80% of the net value of all acquisitions (Kanungo, 2012). The level of concentration did not drop significantly between 2010 and 2015, 25 firms took 74% of the net value of all acquisitions (ca. 40 billion USD). By 2012, the net value of acquisitions reached 116 billion USD 83% of which were in developed countries and concentrated in IT with full ownership.

Based on Kallummal et al. (2016) the share of the largest investment type above 1 billion USD/transaction has grown from below 1% in 2007 to 26% by 2015 in total OFDI. This rapid concentration is the result of the changing financial composition of investments. Instead of equity and loan transactions, issued guarantees have taken over the leading role in financing overseas investments. This is also in line with the average size of Indian investments as equity and loan commitments are more preferred by smaller firms, whereas issued guarantees are usually used by large firms (ibid: 43).

Greenfield investments are not as capital-intensive as M&A and the ownership structure is also more diverse which can be attributed to the different historical legacy (more minority stakes in joint ventures). In terms of the degree of concentration the top 10 companies with 148 projects represented only 30% of the net value of all projects between 2000 and 2011 (441 projects). The size of companies were also relatively small, the average turnover of these companies was between 100 million and 1 billion USD (Charlie, 2012:24).

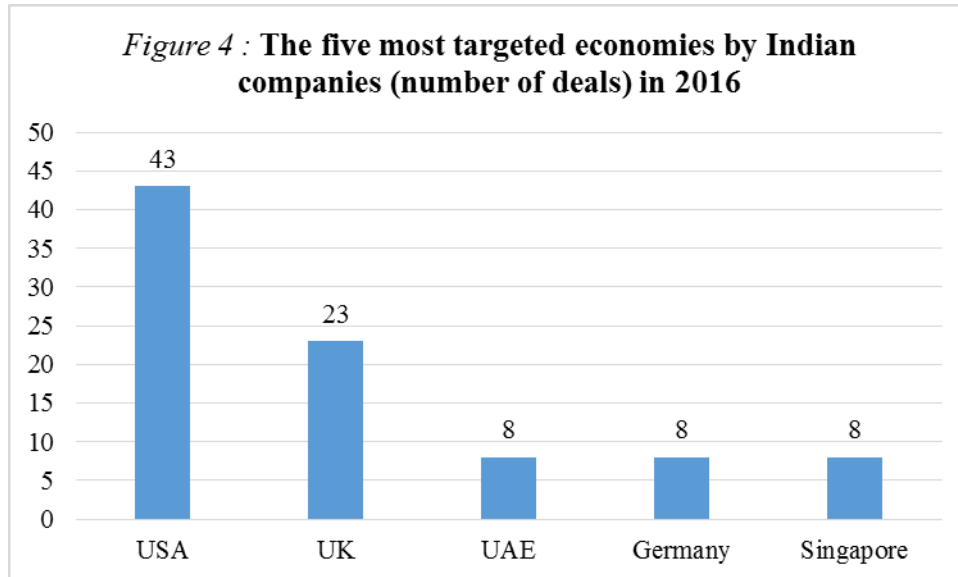
Since about 2011 there has been a slow rebound of acquisitions. In 2015 outward M&A activity of Indian companies witnessed a marked increase partly because of the low level of domestic activities (IMAP, 2016). Total outward deal rose to 5,2 billion USD from 1,6 billion USD in 2014 (see Figure: 3). Pharmaceutical firms were leading the surge in order to gain access to new markets, mainly in the US and Europe. These companies managed to expend their distributional reach and strengthen their manufacturing capabilities. The geographical targets remained the same from previous years, the top destination was the United States, followed by the United Kingdom and Germany.



Source: IMAP Insights (2016:5)

Interestingly, M&A has not completely taken over the position of greenfield investments. Not only because of the shortage of time but M&A witnessed a peaking period between 2006 and 2011 and since then the trajectory has reversed. In fact, after 2011 the number and value of greenfield investments compensated the steep fall of the number and volume of acquisitions (Charlie (EICC), 2012). This cycle is the product of the financial crises which had a more negative impact on acquisitions than on greenfield for various reasons. One of those reasons was that acquisitions were usually financed by loans and issued guarantees and in some cases with high premiums. Moreover, M&A targeted developed markets. In fact 80% of the transactions took place either in Europe

or in the US which resulted in a spectacular realignment in the share of the two regions in the total OFDI (see Figure 4).



Source: EY Analysis on Thomson One Data (2017)

Developed countries represented a minor 35% in the early 1990s but when M&A was peaking between 2006 and 2008 it reached 53%. The share of developed countries are probably even larger if we leave out acquisitions in oil and gas industry, then almost 60% of non-oil and gas acquisitions were allocated to projects in developed economies in the peak period. Within the developed regions, two-thirds of the acquisitions took place in Europe and one third in North America. Half of all the European acquisition were in the UK.

Table 3: Geographical distribution of corporate mergers in India

	2015		2016	
	Count	Value (million USD)	Count	Value (million USD)
Domestic	483	16360	505	25141
Inbound	258	9949	204	21396
Outbound	146	3708	158	9650
Total	887	30017	867	56187

Source: EY analysis of Thomson ONE data

As a result of acquisitions, not only did the geographical diversification grow significantly in this period, but the sectoral composition also became more diverse compared to the greenfield segment. 23% of M&As targeted manufacturing, including pharmaceuticals, automotive industry, consumer goods and chemicals, whereas 45%

were in service sector: mostly IT services and BPOs. Developing countries account for a much larger 85% share of greenfield activities in the 2000s. The extractive industries and manufacturing attracted much of this FDI, the latter representing 41% of total value of greenfield projects (including the 15% that was allocated to European and Northern American sites). See Table 4 below:

Table 4: Sectoral composition of major acquisitions and greenfield investments in the 2000s

<i>Sector</i>	Acquisitions*		Greenfield**	
	<i>Value (million USD)</i>	<i>Share (%)</i>	<i>Value (million USD)</i>	<i>Share (%)</i>
Manufacturing	11695	22,8	96975	41,1
Resource based sectors	16190	31,5	67122	28,5
Services	23463	45,7	71624	30,4
Total	51348	100	235721	100

* between 2010 and 2014, ** between 2003 and 2014. Source: own collection based on Athukorala and Veeramani (2017)

Industrial composition

Industrial composition similarly reflects a shift from the originally market seeking to strategic asset seeking motivation in the latter part of the 2000s. During the period of ISI more than 80% of OFDI was in manufacturing between 1960 and late 1980 and as we have noted it targeted developing countries. Indian firms had a technological advance in intermediate-technologies in low-tech infant industries protected by state policies, such as textile, yarn, paper and pulp, food processing and light engineering²². Since about late 1990s a notable shift has been taking place as a result of capital account liberalization and the concomitant rise of acquisitions.

Table 5: Industrial composition of Indian OFDI (%) between 2008 and 2016

²² See for example Birla, Tata and Thapar Groups' investments in the period between 1960 and 1980. These companies made the bulk of Indian OFDI.

<i>Sector</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>
Manufacturing	44,6	55,4	33,2	25,2	27,9	36,7	18,9	30,6	26,7
Finance, insurance, real estate	23,9	15	34,6	31,3	29,6	15,6	11,2	23,96	23,9
Transport, storage, communication	5	3,3	4,6	8,2	20,4	14,6	4,1	8,55	5,6
Agriculture, mining, hunting, forestry	5,6	4,9	9,3	15,3	3	12,7	53,1	12,9	18,4
Wholesale, Retail trade, restaurants, hotel	9	8,3	8,2	15	8,1	7,7	5,4	14,38	16,3
Community, social and personal services	3,8	2	5,4	1,2	3,9	9,1	4	3,27	2,6
Construction	6,2	3,5	2,2	2,6	5,9	3	2,4	5,16	3,9
Electricity, gas, water	1,1	6,5	0,5	0,6	0,6	0,3	0,1	0,77	2,1
Miscellaneous	0,8	1,2	1,9	0,8	0,6	0,3	0,8	0,4	0,5
Total in million USD	14076	12767	12843	17640	10539	9203	11978	22496	25547

Source: own collection based on RBI database

Diversification in the industrial composition of outward investments was the result of the declining share of manufacturing after 2006 which has been more than compensated by infrastructure (construction), financial services and transport activities. The drop in the share of manufacturing continues after 2007 from 38% of total OFDI to 25% by 2015. But it is notable that activities like agriculture, hunting, forestry and fishing and transport storage and communication produced 10% increase on average between 2007 and 2015 (Kallummall et al., 2016:31).

As we have also noted, manufacturing is still overrepresented in greenfield projects, while IT and other services prefer acquisitions for strategic asset seeking purposes. These investments target developed countries with cost-competitive advantages. Despite their low-cost profile, these companies encompass wider scale and scope of economies. Manufacturing comprised of pharmaceutical, healthcare, biotechnology, plastics and chemicals, metal ores, and automotive investment projects in the later 2000s. In contrary, the share of services in new investments grew from 41,7% to 44,7% between 2008 and 2014 which shows that the majority of the large takeovers in the period between 2004-2010 was in service related areas most notably IT, software-services and BPO. In addition finance, insurance and real estates contributed to the diversification of Indian overseas investments.

One way to make an assessment on the performance of overseas investment made by Indian companies is to compare the value of repatriated money to the value of the investment stock. This simple calculation is not the precise form for rate of return since either some obligations must be met in the host economy or profits are also often reinvested in the same project or elsewhere. Repatriation is important for the financial balance of the Indian economy, thus it gives us a more nuanced picture with the positive

effects of overseas investments on the balance of payment. Kallummal et al. (2016) made an assessment using only direct channels of OFDI (equities, loans, issued guarantees) and compared it with direct forms of repatriation (dividend, interest payments or other revenue receipts, e.g. royalties). According to their findings, the 100 largest companies in their sample undertaking foreign investment between 2010 and 2015 possessed foreign assets worth of 139,5 billion USD (in stock) and in the same time the repatriation of the same companies was at the tune of 16,2 billion USD. This calculation suggests that Indian OFDI did not translate into foreign exchange earnings to a large extent in the post-crises period. In fact very little gains are made by Indian firms on their foreign assets: the ratio of revenue receipts upon OFDI in stock terms was only 0,14 (Kallummal et al., 2016:61).

Indian investment in Europe

The bulk of outward investment from India was part of the South-South trade and investment cooperation during the ISI and it sought markets for Indian adopted technologies. With the liberalization in the 1990s and with the changing motivation of Indian firms from market seeking to strategic asset seeking, the geographical destination of investments concomitantly shifted towards developed economies. We have to underline though that official statistics include many off-shore destinations therefore it is difficult to give a precise proxy of where exactly the final investments have been done. According to RBI statistics (2016) the top 10 destination for Indian investments included Singapore (21,7%), Mauritius (18,9%), the Netherlands (18%), USA (7%), United Arab Emirates (5,1%), British Virginia (4,3%), United Kingdom (3,5%), Cyprus (2,9%), Switzerland (2%) and Australia (2%) followed by the Cayman Islands (1,7%).

After adjusting RBI statistics with companies' annual reports we can estimate that some 70% of the new acquisitions in the 2000s targeted developed countries in North America and in the EU²³. Initially, the majority of investments went to the US first partly because of many citizens from the Indian diaspora benefited from the IT boom in the

²³ Europe and North America emerged as the major host regions, accounting respectively for 34 and 24% of total Indian OFDI equity. Among the developing regions, South East Asia witnessed the largest decline in share, from 36 down to 9%. Two developed countries, namely, the United Kingdom (27%) and United States (24%) were the major destinations for Indian OFDI in the early 2000s.

late 1990s. After the dotcom bubble burst in 2000 the geographical destination of service sector investments shifted to the UK and Europe. The first large relocation to the UK was made by Infosys in 2000. Since then two-thirds of investments in the developed region happened in the EU.

Three motivations attracted Indian investments in Europe. First, the vast market with strong purchasing power and proximity to many senior global clients. Second, clear patent laws help Indian companies to purchase new patents and transform them into their production system²⁴. And third, good infrastructure and logistical concerns and an available pool of skilled workforce with moderate wages all played a part. The latter factor applies to various European states to a different degree. Despite these variations around half of all the European investments were made in the UK followed by Germany and the Benelux countries. Since the end of the crises diversification has been on the rise within the European Union with the growing share of Central and Eastern European destinations. Although the latter category still belongs to transition economies which makes some investment characteristics like motivation, entry-mode, industrial composition different from developed country destinations.

In Europe both the commercial consideration and the asset-seeking strategy (technological know-how, marketing expertise, brand names) are important. EU has been India's largest trading partner from the beginning, still occupying a firm share of 20,3% of total Indian export and 14,3% of total import (as of 2010, PwC, 2010). India's role in the European trade is less dominant, although the share has been on a steady rise since 2000. India is the 8th largest trade partner of the EU, occupying a share of 2,6% in the total export and 2,3% in the total import (PwC, 2010). Companies from IT, pharmaceutical and alternative-energy industries are the leading investors.

The EU is, however, still just the second biggest host of Indian investments after the US despite the fact that Indian investment grew almost 10 times between 2000 and 2014 in Europe. Since 2011 the growth rate has slowed down to 5-6% per year (2012-2014) which is in line with similar global trends. (During the peak of acquisition uptick

²⁴ Well-known example is Tata Steel's Corus acquisition with which it obtained 60-odd patents. Tata Steel had not possessed any patent prior to the transaction.

in 2008 outflows were larger than inflows which was a concern for the RBI). See the sectoral breakdown of Indian investments in Europe in Table 6.

Table 6: Indian investments in Europe in sectoral breakdown

<i>Sector</i>	<i>Value (million USD)</i>	<i>Percentage</i>
Manufacturing	128,9	36,8
Finance, insurance, real estate	100,1	28,6
Transport, storage, communication	65,15	18,6
Agriculture, mining, hunting, forestry	34,6	9,9
Wholesale, Retail trade, restaurants, hotel	8,9	2,6
Community, social and personal services	8,04	2,3
Construction	1,13	0,32
Electricity, gas, water	3	0,87

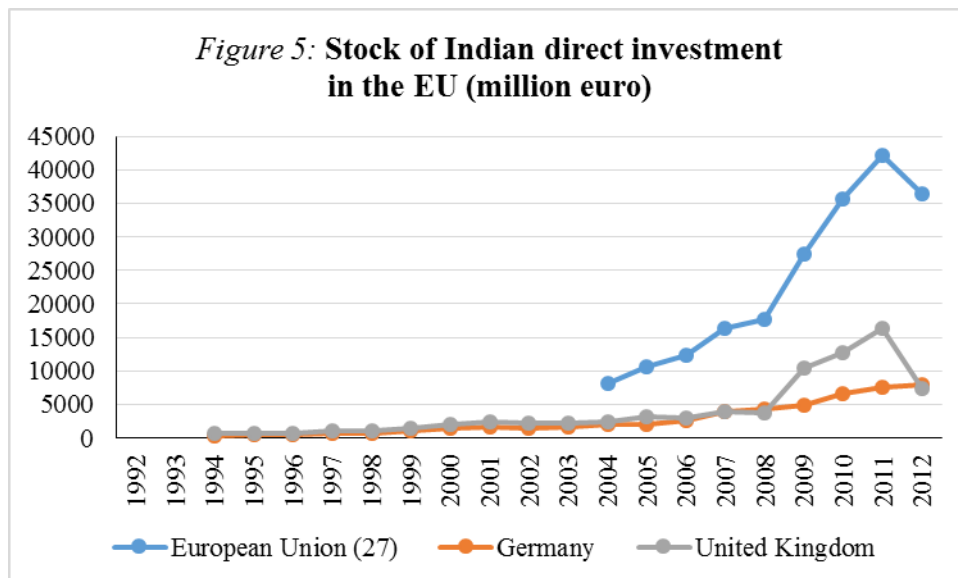
Source: Roman et al. (2014)

Indian companies invested in Europe between 2000 and 2016 an estimated 60-80 billion USD out of the total stock of foreign assets which stood at 255,4 billion USD in 2016. It is difficult to give a precise evaluation on the stock of Indian FDI in Europe because of two things. First, the offshore activity of Indian companies, similarly to western multinationals, is rampant, although less widespread than for example in Russia. Second, in terms of investment trends in Europe, Eurostat provides data on country break-down only until 2012. After 2012 we have to rely on major companies' annual reports and a different dataset provided by the Reserve Bank of India. Despite the methodological differences in the statistics, the estimation of 60-80 billion USD is a fairly good proxy for Indian capital in Europe.

The average size of the transactions was little more than 100 million USD but as we already noted amongst the many smaller transactions there were also some large, in fact giant acquisitions. M&As represented 60% of Indian OFDI in Europe with ca. 450 projects, while greenfield investments were the rest 40% with 520 projects. Since 2011 there is a tendency of dropping M&A activity and a parallel rebound of greenfield investments which is related to Indian companies extending presence in CEE (Roman et al., 2014).

Western Europe

The UK used to be the most attractive destination for Indian firms after the US for decades. Besides the colonial heritage and the common language, plus the large number of Indian expatriates the UK has a similar legal system to India due to the fact that both countries are members in the Commonwealth of Nations. UK and India are top investors in each other economies. India is the fifth largest investor in the UK but there has been a steady decline of the country's share in Indian OFDI because of the rise of other EU members, most spectacularly Germany. In 2010 UK's share fell from 47% of all Indian OFDI in Europe to 36% by 2013 whereas Germany grew to the second place with an estimated 15 billion USD investment from India (see Figure 5).



Source: Eurostat

Comparing Indian investments in Germany and in the UK we observe different characteristics. Investments in the UK are much more diverse both in terms of scale and scope. These cover a wide range of industries as IT, chemicals, steel, finance, automotive, logistics, media and retail. Besides some of the largest acquisitions during the early 2000s (like Infosys relocation from the US or the Corus transaction by Tata Steel) there are many sporadic minor investments conducted by diaspora people in media, finance (insurance) and retail services. By 2013 Indian companies invested approximately 25 billion USD in the UK and there are over 400 projects third of which are M&As and the rest greenfield. Large Indian companies such as Tata Tea, Corus and

Jaguar employ approximately 80 000 people in the country. There is also a growing fear in the UK of Indian companies' sales-offs²⁵.

In contrast, Germany host a lesser number of Indian firms (208 companies as of 2012) 73% of which were in software service industry (Charlie, 2012:32). The second most attractive industry is manufacturing in which automotive sector is dominant, 41% of Indian investments accounted for this sector followed by consultancy firms with a share of 9% and Pharmaceuticals with 7% and finally alternative energy's 7%. The latter was part of the one-off large acquisition of RePower by Suzlon Energy.

One of the most characteristic advantages of German investments is the large number of small and medium sized companies in manufacturing which is the hotbed of German innovation²⁶. This structure shows resemblances to the economic structure of the Indian manufacturing sector²⁷. Unit labor costs in Germany are regarded low compared to the high level of productivity and good technological endowments. Therefore technology seeking investors are attracted to the German market. This motivation is the cause for the overrepresentation of automotive manufacturers from India in Germany. They concentrate in machinery building, machine tools, automotive spare parts and telecommunication. Germany also provides a strategic location for investors with robust infrastructure and advanced logistics system connecting Benelux, Scandinavian and Central and Eastern European regions. German companies are spread across Europe, having built the largest and most wide-spread production networks in manufacturing across the European Union. Indian firms indicated this as one of the top attractions. Besides the advanced infrastructure, Germany hosts the world's top technical universities. There has been a 25% increase of Indian students in German universities between 2000 and 2011 thanks to the relaxation of the quota system and the support from the educational ministry to attract students from various Indian schools (Charlie, 2012:35). This has become a great advantage when Indian firms need to bring engineering activity to overseas location in search for Hindi speaking highly qualified workforce. Indian companies also target R&D clusters near universities or close to

²⁵ In 2017 Tata Steel decided to shut down one of its steel factories in the UK.

²⁶ Despite no colonial or cultural heritage, German economic relationship with India traces back to the 19th century when Siemens built telegraph connection between Kolkata and London (via Berlin).

²⁷ On the internationalization of Indian SMEs, see: UNCTAD 2007:61.

important clients' headquarters. This is a form of climbing up on the technological ladder and similarly to Chinese endeavours there has also been precedent for Indian companies to acquire highly protected patents. One notable example in the Pharmaceutical industry is Piramal Healthcare which purchased Bayer's molecular imaging R&D portfolio in 2012²⁸.

It is worth to note that the third largest destination of Indian investments in Europe is the Netherlands with a ca. 18% of the total Indian OFDI. The Netherlands serves as a logistical hub for European transportation and it is also regarded as a tax haven by international investors. Therefore it is difficult to estimate the real size and value of investments in the country as some of the registered projects are transferred elsewhere.

According to NFIA (Dutch Foreign Investment Agency) the prime reason for Indian companies to be listed in the Netherlands was market expansion in Europe and Africa (Kallummal et al., 2016:35). Despite this, it is important to underline that almost all the major Indian MNC's have some sorts of business portfolio in the Netherlands, including: Tata Group (Tata Motors, Tata Tea and TCS), Hidarco, Wipro, Infosys, Mahindra, Satyam, Suzlon and Apollo Tyres²⁹. In the case of financial sector, Amsterdam serves as the second largest European hub after London for Indian investors. Finance Company Ltd for instance moved its headquarter from London to Amsterdam in 2012. In addition, attractiveness of the Netherlands in the eyes of Indian investors are made up of its low corporate tax system, good geographical and logistical location with advanced infrastructure and the highly skilled English speaking workforce.

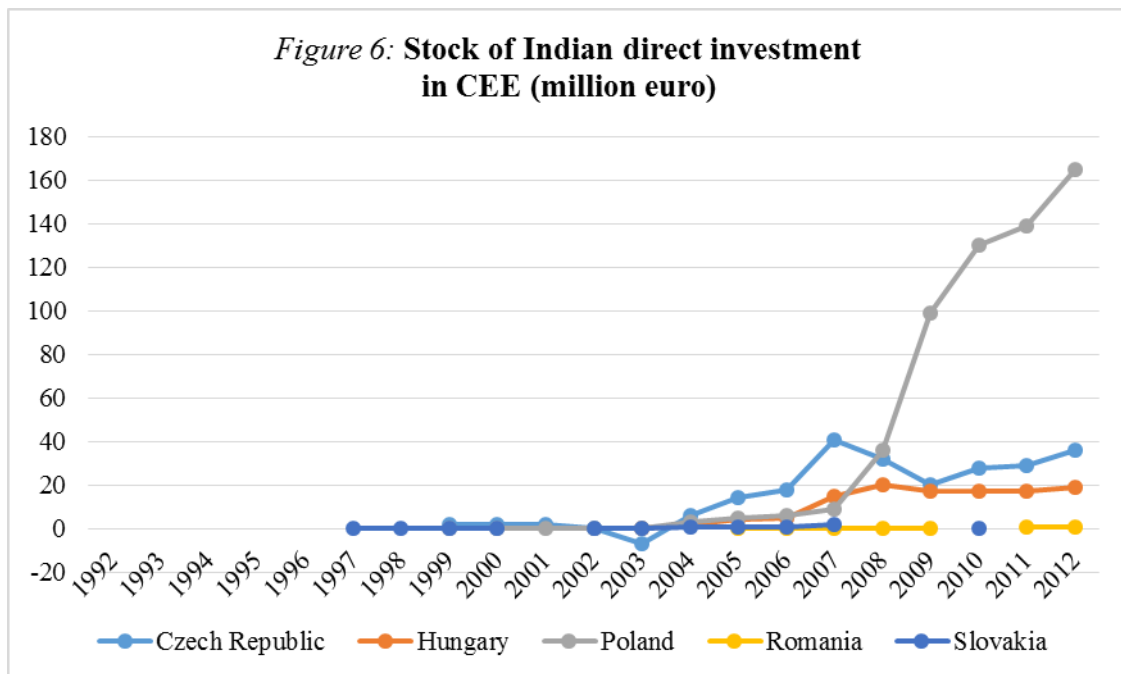
Central and Eastern Europe

Transition economies such as the CEE incorporate a mix of developed (acquisitions in IT Services, Pharmaceutical) and developing (greenfields in manufacturing, extractive industry) product categories of Indian OFDI. Indian 'low cost partner' and 'global consolidator' companies use these location not for the domestic market purposes, neither for any strategic asset purchases but the main target is the proximity to western

²⁸ The size of the deal was undisclosed. The portfolio contained: patents, marketing and distribution rights. <http://www.genengnews.com/gen-news-highlights/with-acquisition-of-bayer-imaging-r-d-portfolio-piramal-continues-shift-to-pharma-ip/81246639>

²⁹ With the acquisition of Vredestein in the Netherlands it has two factories in Europe, one in Hungary.

markets. Similarly to other foreign investors, CEE countries serve as a good entrance gate to the larger European market. The entrance gate phenomenon makes sense in two aspects. First, they are not only geographically close to western markets (like Mexico to the US) but CEE economies are part of the European logistics systems, therefore they are capable to provide the necessary infrastructure and skilled labor force for servicing clients in western core markets. Secondly, these economies are part of the European Union's single market therefore setting up facilities in their home-base provides with the possibility of legal entry to the single market. See the rise of Indian investments in CEE countries in Figure 6.



Source: Eurostat

Furthermore, CEE economies have a large and cheap workforce which western companies already use in their own production networks. Indian 'low-cost partner' and 'global consolidator' or in some cases 'global first mover' companies might also want to integrate them into their production systems. Good example is the automotive industry which had been one of the strongest economic drivers in CEE countries to be integrated into western, mostly German production networks. Indian automotive suppliers are increasingly become global consolidators also in automotive production networks. As a consequence they are motivated to increase their presence in CEE where German auto-manufacturers are the most active.

I. Outlook

At the beginning of the 2000s, Indian investments in the European Union were largely driven by IT and BPO services, manufacturing, like automotive companies. In the past five years Indian companies have been venturing into new sectors such as renewable energy, high-value added manufacturing, financial services, etc. India's burgeoning relationship with the EU is set to be institutionalised by a comprehensive Bilateral Trade and Investment Agreement (BTIA). Since 2007, free trade negotiations have been taking place but some of the obstacles have not been overcome by 2017. There have been several disputes in the negotiations which slowed down the process in recent years because both parties were unable to achieve a consensus on issues like tariff cuts in automobiles and luxury goods, public procurement, market opening and movement of skilled professionals. However, both parties agree that a new free trade agreement would benefit economic integration in the rapidly changing world economy with rising regional mega-trade regimes³⁰. There is also a consensus that the EU-India BTIA will accelerate Indian investments in Europe.

According to the Europe-India Chamber of Commerce (EICC) if BTIA were in effect in the next ten years trade and investment could enter into sectors – such as tourism, food processing industry, environmental technology etc. – where it has been underrepresented (Charlie, 2012). In EICC's calculation it is expected to open up hitherto protected sectors of the Indian economy such as luxury cars, beverages, retail and banking. As part of the ongoing discussions, the EU needs to accept India's request for preferential treatment. The proposed BTIA is expected to reduce duties on over 90 per cent of the trade between the two regions. The BTIA could also result in 92 per cent spike in bilateral trade between India and the EU to approximately 250 billion USD by 2020 from 108 billion USD in 2011. India is expected to have the largest number of MNEs from developing countries by 2024 according to the report by PricewaterhouseCoopers (2010). By 2024, India would have 20 % more multinational

³⁰ India is part of the Regional Comprehensive Economic Partnership (RCEP) Initiative which is an economic cooperation in Asia supported by China. RCEP is viewed as an alternative to other major mega-regional trade and investment agreements in the Pacific and transatlantic regions.

enterprises than China. More than 2200 Indian firms are anticipated to invest overseas in the next fifteen years (PwC, 2010).

II. Conclusion

India-based multinational enterprises have been investing overseas from several decades but before the reform era of the 1990s most of the investment projects took place in other developing countries. These projects were small in scale and concentrated in sectors of manufacturing in which Indian companies held competitive advantage by gaining special skills to adapt state-of-the-art technologies combined with special form of labor processes to different business environment from the West. This adaptation was possible by their unique managerial skills and special governance structure. Most of the companies were family-owned with strong ties to the dirigist state.

After the reforms of the 1990s India opened up its capital account and changed the economic paradigm from an originally protectionist economy to a liberal one. The state did not nurture infant industries anymore but as a facilitator through various institutional mechanisms (like education or tax allowances) it has begun to help companies to expand their global activities. The scale and scope of these companies grew far beyond their predecessors. They have been investing more into developed countries and sometimes they have an increasing role in cutting-edge industries and high-profile technologies such as IT, pharmaceuticals and high value-added manufacturing. Both the types of projects and their geographical destinations have become more diverse, too.

After the US, the EU has been the main destination for Indian overseas investments. The typical forms of such investments are not only greenfield projects but through some large-scale acquisition, companies managed to gain access to advanced market niches or important strategic assets, such as new technologies, brand names or skilled workforce. Furthermore, companies target not only developed Western markets, but their activities are similarly widespread in transition economies in the European periphery, most notably in Central and Eastern Europe. These economies host a mixed profile of Indian investments that are characteristic of both developed and developing countries' comparative advantages. IT firms for instance target new emerging hotspots for

outsourcing their activities to the Czech Republic, Poland, Romania and Hungary. One notable example is Hungary where Indian investors sought access to the European automotive industry by relocating productions processes. Hungary served as a good entrance for integrating into the wider production networks in Europe. Moreover, the country hosts one of the largest Indian IT service centers.

Despite the current tendency of Indian companies' rising global role, most of the MNEs have a unique character and competitive advantage that make them distinctive from their western counterparts. They are not yet ready for a large scale global operation in the most progressive industries, but they specialize in market niches where Western companies lost interest or where their operation became unviable due to changing business environment. On the contrary, Indian companies capitalize their ability to adapt to much dire market conditions thus they have become good candidates for being Western firms' junior partner in the global reorganization of production. The question for the future is: when will Indian companies be able to advance to senior status to which Western firms shall adapt? What are the conditions that could trigger such a change? Further comprehensive analysis is needed to seek answer to these questions.

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